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SUBJECT: BURKINA FASO: GOVERNMENT ANNOUNCES FUEL PRICE INCREASE

¶1. (U) Summary: On July 11, the Ministry of Commerce and SONABHY, the national oil company, announced increases in the retail price of gas by an average of nine percent. Local labor unions denounced the price hikes as "unbearable." Average consumers complained to reporters on the street, but seemed to take the changes in the stride of "la vie chere" (the high cost of living). However, the long-term consequences of the rate increase could further exacerbate the high cost of transportation and basic goods in landlocked Burkina Faso. End Summary.

¶2. During a July 11 press conference, Secretary-General of the Ministry of Commerce Jean-Claude Bicaba and Director of SONABHY Jean Hubert Yameogo announced the first price increase in the retail cost of gas since the Government of Burkina Faso (GOBF) froze gas prices last July. Burkina Faso is now among several other Governments in West Africa to raise gas prices in recent months, including Cote d'Ivoire, Togo, and Senegal. Under the new rates, unleaded gas is up 7.46 percent to USD 6.62 a gallon; diesel is up 15.26 percent to USD 6.39 a gallon; lamp oil is up 6.5 percent to USD 4.50 a gallon; lubricated gasoline is up 7.52 percent to USD 6.58 a gallon. These prices are marginally lower in Bobo-Dioulasso, the second largest city in Burkina Faso.

¶3. Six of the central labor union leaders and one autonomous union leader signed a letter on July 11 declaring that these increases in fuel costs would lead to an increase in prices of other goods and services and make an already difficult situation "unbearable for a large swath of the population." Burkinabe interviewed by the local press echoed these concerns by calling the price increase a deplorable action, demanding subsidies on basic goods to offset the price increase, and accusing the government of providing salary increases to government employees instead of fully subsidizing gas prices. Despite the public's fears that the increase of fuel prices would raise their transportation costs within the city of Ouagadougou, during a July 26 meeting, the local branch of National Federation of taxi drivers and transportation workers decided to maintain their current fares, at least for the time being.

¶4. According to SONABHY, despite the increase in fuel prices, the GOBF continues to subsidize fuel and consumers are still not paying the full cost. World oil prices have steadily increased in the past year, from USD 92 a barrel in January 2008 to USD 147 a barrel on July 11, 2008. Because SONBAHY was unable to raise consumer prices for one year, it lost almost USD 56 million. However, despite the price freeze, Yameogo claimed his firm made a net profit during calendar year 2007, but would not make the same kind of profit in 2008. SONABHY's spokesman assured the press that SONABHY was in no danger of going bankrupt - a point that Minister of Economy and Finance Jean-Baptiste Compaore emphasized to Charge d'Affaires David Brown in a meeting on July 11.

¶5. When asked by the press if privatization of SONABHY could relieve the cost burden on the consumer, Bicaba challenged the belief that privatization or the liberalization of the fuel market would result in lower market prices. SONABHY representatives agreed that privatization was not the answer and highlighted statistics to support their position. (NOTE: According to SONABHY, a 12kg gas cylinder in Mali costs USD 29.20, while in Burkina Faso it only costs about USD 9.73. However, Post has been unable to confirm these numbers, and the Malian Ministry of Commerce quotes 2007-2008 national prices as being about 10 cents lower per liter than prices

in Burkina Faso - disproving SONABHY argument. END NOTE.)

16. Comment: Because the Ministry of Commerce fixes truck and rail transportation prices at rates that permit transporters to make a set margin of profit, it is expected that the price for shipping will increase as a direct result of the increase in gas prices. This will most likely lead to higher prices for food and consumer goods in urban and rural areas, thus exacerbating "la vie chere," or the already high cost of living, which sparked riots in Burkina in February 2008.

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